

Message Text

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12
ACTION EA-10

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P R 060938Z FEB 75
FM AMEMBASSY MANILA
TO SECSTATE WASHDC PRIORITY 0435
INFO CINCPACREPPHIL

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E.O. 11652: N/A
TAGS: MARR, EFIN RP
SUBJECT: RECOUPMENT

REF: A. STATE 023542
B. MANILA 1365
C. SECDEF TO CINCPAC HONOLULU HI 1453
D. CINCPACREPPHIL 120814Z DEC 74 RPT TO STATE VIA MANILA 1232
E. MANILA 14514
F. MANILA 12656
G. MANILA 11617
H. CINCPACREPPHIL 280841Z JAN 75 RPT TO STATE VIA MANILA 1367

1. SUMMARY. REF. A. INFORMED EMBASSY OF REPORT FROM TREASURY THAT EMBASSY HAS INSTRUCTED MILITARY BANKING FACILITIES TO CEASE PURCHASE OF U.S. CURRENCY AND COINS FROM PHILIPPINE CENTRAL BANK OR COMMERCIAL BANKS (RECOUPMENT) AND TO CHANNEL PURCHASES THROUGH REGIONAL DISBURSING OFFICER. REFERENCE STATED TREASURY PREFERRED HAVING MILITARY BANKING FACILITIES PURCHASE DIRECT FROM BANKS AND ASKED FOR EMBASSY COMMENT. THIS MESSAGE REVIEWS HISTORY OF RECOUPMENT QUESTION IN PHILIPPINES. IT NOTES EMBASSY INVOLVEMENT IN RECOUPMENT HAS CONSISTED OF NEGOTIATING ARRANGEMENTS WITH PHILIPPINE CENTRAL BANK FOR RECOUPMENT IN RESPONSE TO REQUEST FOR INSTITUTION OF RECOUPMENT FROM TREASURY AND DEPARTMENT OF DEFENSE. ARRANGEMENTS HAVE NOT BEEN ACTIVATED BECAUSE OF OBJECTIONS FROM TREASURY WASHINGTON WHICH TREASURY HAS NOT,
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REPEAT, NOT COMMUNICATED TO EMBASSY. EMBASSY BELIEVES ADEQUATE

PRACTICAL AND FOREIGN POLICY REASONS EXIST FOR PREFERRING ARRANGEMENTS WORKED OUT BY EMBASSY OVER THOSE ESPOUSED BY TREASURY. IN ANY EVENT, EMBASSY ANTICIPATES THAT IT AND DEPARTMENT WILL BE CONSULTED PRIOR TO IMPLEMENTATION OF ANY SUCH ARRANGEMENTS. SEPARATE MESSAGE FOLLOWS ON CONVERSION ISSUE ALSO RAISED IN REFERENCE A.

2. EMBASSY INVOLVEMENT WITH RECOUPMENT QUESTION DATES BACK TO SEPTEMBER OF 1974. DURING THAT MONTH EMBASSY WAS INFORMED BY CINCPACREPPHIL AND 3D TACTICAL FIGHTER WING AT CLARK AIR BASE THAT U.S. MILITARY ORGANIZATIONS IN THE PHILIPPINES WISHED TO RECOUP FROM THE PHILIPPINE BANKING SYSTEM U.S. CURRENCY AND COINS. REQUIREMENTS OF THESE ORGANIZATIONS FOR U.S. CURRENCY AND COINS AMOUNTING TO SEVERAL MILLION DOLLARS MONTHLY WERE BEING PROVIDED FROM REGIONAL MILITARY OFFICE IN OKINAWA. COST OF DELIVERING CURRENCY AND COINS FROM OKINAWA AND DESIRE TO REDUCE DOLLAR INVENTORY WERE CITED AS REASONS FOR SEEKING RECOUPMENT.

3. FOLLOWING NOTIFICATION OF INTEREST OF U.S. MILITARY AUTHORITIES IN RECOUPMENT, EMBASSY APPROACHED CENTRAL BANK OF PHILIPPINES TO REQUEST ITS PARTICIPATION IN AND APPROVAL OF RECOUPMENT ON BEHALF OF U.S. MILITARY ORGANIZATIONS IN THE PHILIPPINES. EMBASSY WAS SUCCESSFUL IN WORKING OUT ARRANGEMENTS WITH CENTRAL BANK ACCEPTABLE TO U.S. MILITARY AUTHORITIES IN PHILIPPINES (REFS. F AND G). THESE ARRANGEMENTS INVOLVED PARTICIPATION OF REGIONAL DISBURSING OFFICER AND WERE NOT PLACED IN EFFECT BECAUSE OF DIRECTIONS (NOT SENT EVEN INFO TO EMBASSY) FROM TREASURY TO THE REGIONAL DISBURSING OFFICER NOT TO PARTICIPATE (REF E). CINCPACREPPHIL THEN REQUESTED TREASURY APPROVAL FOR PARTICIPATION OF THE RDO IN THESE ARRANGMENTS THROUGH DEFENSE CHANNELS (REF D). IN A JOINT TREASURY/DEFENSE REPLY WHICH NOT COORDINATED WITH STATE CINCPACREPPHIL WAS DIRECTED NOT TO INSTITUTE RECOUPMENT UNDER ARRANGEMENTS WORKED OUT BY EMBASSY AND TO PROCEED WITH DIRECT RECOUPMENT FROM COMMERCIAL BANKS BY MILITARY BANKING FACILITIES IN THE ABSENCE OF QUOTE SUFFICIENT U.S. DOLLARS IN REQUIRED DENOMINATIONS. UNQUOTE (REF C). CINCPACREPPHIL ADVISED EMBASSY (REF H) THAT RECOUPMENT FROM PHILIPPINE COMMERCIAL BANKS WAS NOT REPEAT NOT PRACTICAL OR DESIRABLE ALTERNATIVE TO RECOUPMENT THROUGH CENTRAL BANK. EMBASSY (REF B) AGREED WITH CINCPACREPPHIL ON DESIRABILITY OF LIMITED OFFICIAL USE

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CENTRAL BANK CHANNEL BUT SUGGESTED RESUBMISSION TO TREASURY OF ARRANGEMENTS MADE BY EMBASSY.

4. EMBASSY HAS BEEN AWARE FOR SOME TIME OF INTEREST OF TREASURY IN HAVING MILITARY BANKING FACILITY AT SUBIC NAVAL BASE DIRECTLY CARRY ON RECOUPMENT EITHER WITH PHILIPPINE COMMERCIAL BANKS OR PHILIPPINE CENTRAL BANK. IN FACT THE SUBIC FACILITY DID RECOUP FROM THE PHILIPPINE CENTRAL BANK FOR SEVERAL MONTHS IN

1974 WITHOUT THE EMBASSY APPROVING OR BEING CONSULTED. THIS EARLIER RECOUPMENT BY THE SUBIC FACILITY WAS DISCONTINUED BY DIRECTION OF MILITARY AUTHORITIES FOR REASONS THE EMBASSY UNDERSTANDS WERE NOT RELATED TO THE PHILIPPINE SITUATION.

5. EMBASSY'S BASIS RESPONSIBILITY IN REGARD TO RECOUPMENT AND OTHER ACTIVITIES OF BASE BANKS IS TO ENSURE THAT CONDUCT OF SUCH ACTIVITIES AND MEANS CHOSEN TO CARRY THEM OUT NEITHER CONFLICT WITH EXISTING AGREEMENTS AND UNDERSTANDINGS WITH PHILIPPINE AUTHORITIES, NOR POSE SIGNIFICANT RISK OF ADVERSE EFFECT ON RELATIONS WITH PHILIPPINE AUTHORITIES. ESTABLISHMENT OF BASE BANKING FACILITIES AND DEFINITION OF THEIR ROLE HAS INVOLVED SENSITIVE NEGOTIATIONS WITH PHILIPPINE MONETARY AUTHORITIES WHO HARBOR UNDERSTANDABLE CONCERN THAT AUTHORIZED BANKING ACTIVITIES AT BASES DO NOT INFRINGE UPON PHILIPPINE SOVEREIGNTY IN RESPECT TO BANKING AND MONETARY ACTIVITIES WITHIN THE PHILIPPINES, OR THAT UNAUTHORIZED ENLARGMENT OF THE SCOPE OF SUCH ACTIVITIES NOT DEPRIVE PHILIPPINE COMMERCIAL BANKS OF BUSINESS THEY HAVE THE CAPABILITY AND DESIRE TO CONDUCT. BASE BANK FACILITIES LACK ANY CHARTER TO CONDUCT MORE THAN AGREED ACTIVITIES AND RECENT MOVES TO EXCEED SUCH LIMITS HAVE NOT BEEN HELPFUL. EMBASSY MUST HAVE ASSURED MEANS OF KEEPING INFORMED ON BASE BANKING ACTIVITIES AND OF PARTICIPATING IN DECISIONS RESPECTING CHANGES IN BASE BANKING POLICIES, IF IT IS TO EFFECTIVELY DISCHARGE ITS ROLE IN KEEPING RELATIONS IN THIS AREA ON AN EVEN KEEL, WHILE ASSISTING IN SEEING THAT BASE BANK NEEDS ARE MET.

6. EMBASSY BELIEVES, RECOUPMENT ARRANGEMENTS AGREED TO WITH PHILIPPINE CENTRAL BANK ARE RESPONSIVE TO REQUIREMENTS OF U.S. MILITARY ORGANIZATIONS IN THE PHILIPPINES. THESE ARRANGEMENTS WILL ENABLE RECOUPMENT OF FROM \$1 MILLION TO \$2 MILLION MONTHLY, ACCORDING TO LATEST ESTIMATES OF THE CENTRAL BANK, AT NO COST TO U.S. GOVERNMENT. UNDER THESE ARRANGEMENTS, MILITARY BANKING LIMITED OFFICIAL USE

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FACILITIES WOULD CONTINUE TO COLLECT FEE FOR VERIFYING COUNT AND INSPECTING QUALITY OF DOLLARS PURCHASED. FURTHER, THESE ARRANGEMENTS WILL PROVIDE ASSURANCE THAT EMBASSY WILL BE PROMPTLY INFORMED OF DEVELOPMENTS ARISING FROM RECOUPMENT ACTIVITY WHICH MIGHT HAVE IMPACT ON RELATIONS BETWEEN BASES AND PHILIPPINE AUTHORITIES. MOREOVER, ADMINISTRATIVE BURDEN ON REGIONAL DISBURSING OFFICER INVOLVED IN THESE ARRANGEMENTS WOULD BE MINIMAL.

7. ALTHOUGH EMBASSY BELIEVES PROPOSED ARRANGEMENTS ARE SUITABLE MEANS OF MEETING OBJECTIVE OF U.S. MILITARY ORGANIZATIONS IN PHILIPPINES, IT WOULD APPRECIATE BEING INFORMED IF DEPARTMENT BELIEVES OTHER ARRANGEMENTS WOULD BETTER SERVE U.S. INTERESTS. IF ALTERNATIVE ARRANGEMENTS ARE DESIRED, EMBASSY WILL WANT TO APPROACH PHILIPPINE MONETARY AUTHORITIES TO OBTAIN THEIR

APPROVAL FOR SUGGESTED ALTERNATIVE ARRANGEMENTS. EMBASSY IS PREPARED TO WORK OUT WHATEVER ARRANGEMENTS WILL SERVE THE INTERESTS OF TREASURY AND THE BASE FACILITIES INVOLVED WITHIN COORDINATED GUIDANCE, BUT WE FIND THE PRESENT AD HOC METHODS OF ESTABLISHING SUCH ARRANGEMENTS OR ISSUING INSTRUCTIONS WITH RESPECT TO THEM TOTALLY UNSATISFACTORY.

8. SEPTTEL FOLLOWS ON PESO SALES AND RELATED ISSUES.
SULLIVAN

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